

MANAGEMENT'S DISCUSSION AND ANALYSIS AND BASIC FINANCIAL
STATEMENTS

Hospital Service District No. 1 of Iberia Parish, State of
Louisiana (d/b/a Iberia Medical Center)
Years Ended September 30, 2005 and 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 4-26-06

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Management's Discussion and Analysis and Basic Financial Statements

Years Ended September 30, 2005 and 2004

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Report of Independent Auditors

The Board of Commissioners
Hospital Service District No. 1 of Iberia Parish,
State of Louisiana

We have audited the accompanying balance sheets of Hospital Service District No. 1 of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (the Medical Center) as of September 30, 2005 and 2004, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and in accordance with the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center at September 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3 to the financial statements, in 2005, the Medical Center adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, which required additional investment related disclosures.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2006, on our consideration of the Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 3 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

February 10, 2006

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Management's Discussion and Analysis

This section of the annual financial report for Hospital Service District No. 1 of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (the Medical Center) presents background information and management's analysis of the Medical Center's financial performance during the fiscal years ended September 30, 2005 and 2004. Please read it in conjunction with the basic financial statements in this report.

Required Financial Statements

The basic financial statements in this report are presented using Governmental Accounting Standards Board (GASB) accounting principles. These financial statements offer short-term and long-term financial information about the Medical Center's activities.

The balance sheets include all of the Medical Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Medical Center creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Medical Center, and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the statements of revenue, expenses, and changes in net assets. This statement measures changes in the Medical Center's operations over the past years and can be used to determine whether the Medical Center has been able to recover all of its costs through its patient service revenue and other revenue sources.

The final required financial statement is the statements of cash flows. The primary purpose of this statement is to provide information about the Medical Center's cash from operating, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Medical Center

The balance sheets and the statements of revenue, expenses, and changes in net assets report information about the Medical Center's activities. Increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Management's Discussion and Analysis (continued)

2005 Financial Highlights

The following summarizes the Medical Center's financial highlights for the year ended September 30, 2005.

- The Medical Center generated \$3,764,000 in cash from operations during the year ended September 30, 2005.
- Investments in property and equipment totaled \$2,273,000 for the 2005 fiscal year.
- The Medical Center reported an increase in net patient service revenue of \$2,335,000 in 2005. This was a 6% increase compared to 2004. The increase was driven by volume increases in 2005.

Balance Sheets

The Medical Center's condensed balance sheets are presented below.

TABLE 1

	September 30 2005	2004	Dollar Change	Percent Change
	<i>(In Thousands)</i>			
Total current assets	\$ 18,615	\$ 15,379	\$ 3,236	21%
Property and equipment – net	21,784	21,467	317	1%
Other assets	4,274	3,882	392	10%
Total assets	<u>\$ 44,673</u>	<u>\$ 40,728</u>	<u>\$ 3,945</u>	10%
Current liabilities	\$ 9,178	\$ 9,877	\$ (699)	7%
Long-term debt and capital lease obligations	20,176	16,811	3,365	20%
Total liabilities	<u>29,354</u>	<u>26,688</u>	<u>2,666</u>	10%
Net assets	15,319	14,040	1,279	9%
Total liabilities and net assets	<u>\$ 44,673</u>	<u>\$ 40,728</u>	<u>\$ 3,945</u>	10%

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Management's Discussion and Analysis (continued)

Current Assets and Liabilities

During 2005, current liabilities decreased while current assets increased, indicating improved liquidity at September 30, 2005, versus September 30, 2004. The Medical Center's current ratio increased from 1.6 at the end of the prior year to 2.0 at September 30, 2005. This is mainly due to the increase in cash related to new bond issuances.

Capital Assets

The following table presents the components of property and equipment at September 30, 2005 and 2004.

TABLE 2

	September 30	
	2005	2004
	<i>(In Thousands)</i>	
Land and improvements	\$ 1,444	\$ 1,401
Building and improvements	16,589	15,537
Medical office building	9,478	8,816
Fixed equipment	4,383	4,383
Major movable equipment	16,930	19,138
	<u>48,824</u>	<u>49,275</u>
Accumulated depreciation and amortization	(28,824)	(29,577)
Construction in progress	1,784	1,769
Net property and equipment	<u>\$ 21,784</u>	<u>\$ 21,467</u>

During fiscal year 2005, the Medical Center invested \$2,273,000 in capital assets. The source of the funding for these projects was derived primarily from the remaining proceeds of the bond issuances in 2005 and the remaining bond proceeds of \$932,000 from the 2003 bond issuances. Assets with a cost of \$2,710,000 were disposed of during 2005. These assets were fully depreciated so there was no impact on net assets as a result of these transactions.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
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Management's Discussion and Analysis (continued)

In Table 3, the Medical Center's fiscal year 2005 capital budget projects spending up to \$3,200,000 for capital projects. These projects are expected to be financed from operations and the remaining proceeds of the 2005 bond offering.

TABLE 3

Equipment purchases	\$ 950,000
Construction/renovation	<u>2,250,000</u>
Total	<u>\$ 3,200,000</u>

Debt

At September 30, 2005, the Medical Center had \$21,493,000 in outstanding debt. The Medical Center has pledged its revenue and assets as collateral for the Hospital Revenue Bonds issued by Iberia Parish. The Medical Center has agreed to fund the interest and principal payments as they become payable. Accordingly, these Bonds have been recognized as obligations of the Medical Center. The Medical Center repaid previously issued bonds during 2005 in the amount of \$14,445,000 through the issuance of Series 2005A, Series 2005B, and Series 2005C Hospital Revenue Refunding Bonds. The Medical Center issued \$3,700,000 of Taxable Revenue Bonds in 2005 (Series 2005D and Series 2005E). Scheduled principal payments of \$182,000 were made during this fiscal year. Total debt outstanding represents approximately 49% of the Medical Center's total assets at September 30, 2005.

The Medical Center repaid in full all obligations under capital leases during the current fiscal year.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Management's Discussion and Analysis (continued)

Net Assets

The following table presents the components of the Medical Center's net assets at September 30, 2005 and 2004.

TABLE 4

	September 30	
	2005	2004
	<i>(In Thousands)</i>	
Invested in capital assets, net of related debt	\$ 3,752	\$ 4,446
Restricted	4,392	4,156
Unrestricted	7,175	5,438
	<u>\$ 15,319</u>	<u>\$ 14,040</u>

Net assets increased \$1,279,000 during 2005, indicating an improvement in financial condition.

The \$694,000 reduction in the invested in capital assets, net of related debt, resulted from the increase in debt exceeding the additions to capital assets less depreciation expense.

Changes in the cash and investment balances held by the trustee under the bond indenture and under the self-insurance trust arrangement resulted in a \$236,000 increase in the restricted component of net assets.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Management's Discussion and Analysis (continued)

Statements of Revenue and Expenses

The Medical Center's condensed revenues and expenses for fiscal years 2005 and 2004 are presented in Table 5.

TABLE 5

	Years Ended September 30		Dollar	Percent
	2005	2004	Change	Change
	<i>(In Thousands)</i>			
Revenue:				
Net patient service revenue	\$ 40,651	\$ 38,316	\$ 2,335	6%
Other revenue	1,499	1,124	375	33%
Total operating revenue	42,150	39,440	2,710	6%
Expenses:				
Salaries, wages, and benefits	21,147	20,461	686	3%
Supplies and other expenses	16,880	16,471	409	2%
Depreciation and amortization	1,954	1,697	257	15%
Interest expense	1,303	1,154	149	13%
Total operating expenses	41,284	39,783	1,501	4%
Operating expenses in excess of (less than) operating revenue	866	(343)	1,209	352%
Nonoperating gains, net	413	701	(288)	(41)%
Revenue and gains in excess of expenses	\$ 1,279	\$ 358	\$ 921	257%

During the year, the Medical Center's total operating revenues increased \$2,710,000, or 6%, to \$42,150,000 while expenses increased \$1,501,000, or 4%, to \$41,284,000. The Medical Center had a gain from operations of \$866,000, which is 2% of total operating revenue. This compares to the prior fiscal year's loss from operations of \$343,000, or (0.1)% of operating revenue.

Operating Revenue

During fiscal year 2005 and 2004, the Medical Center derived 96% of its total operating revenue from net patient service revenue. Net patient service revenue increased \$2,335,000, or 6%, in 2005. Overall activity at the Medical Center, as measured by patient discharges, increased 4% to 4,617 discharges in 2005 from 4,451 discharges in 2004. Patient days decreased 1% over prior year from 16,610 in 2004 to 16,416 in 2005. The average length of stay for all patients was 3.6 days in 2005 and 3.7 days in 2004.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
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Management's Discussion and Analysis (continued)

Table 6 presents the relative percentages of gross charges billed for patient services by payer type for fiscal years 2005 and 2004.

TABLE 6

	Years Ended September 30	
	2005	2004
Medicare	45%	45%
Managed care	22	26
Medicaid	18	17
Self-pay and other	15	12
	100%	100%

The following table presents the contractual allowances on gross billings by payer and the provision for doubtful accounts for fiscal years 2005 and 2004.

TABLE 7

	Years Ended September 30	
	2005	2004
	<i>(In Thousands)</i>	
Contractual allowances:		
Medicare	\$ 41,202	\$ 35,979
Managed care and commercial insurers	23,889	20,645
Medicaid	20,546	16,652
Other adjustments	41	127
Total contractual allowances	85,678	73,403
Provision for doubtful accounts	6,314	6,118
	\$ 91,992	\$ 79,521

Allowances increased over prior year due to realized contract rate increases not keeping pace with charge rate increases.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Management's Discussion and Analysis (continued)

Other Operating Revenue

For the fiscal year ended September 30, 2005, other operating revenue increased \$375,000, or 33%. Other operating revenue consists of medical office building rentals of \$673,000, cafeteria sales of \$259,000, and other miscellaneous services of \$567,000.

During the 2004 fiscal year, the Medical Center entered into a contractual relationship with an unrelated third party to provide long-term acute care services. Long-term acute care operations began in June 2004. A portion of the agreement includes reimbursement to the Medical Center for the lease of hospital space and reimbursement to the Medical Center for hotel services provided to the long-term acute care center. In 2005, the lease revenue was \$196,000 and hotel service revenue was \$187,000. In 2004, the lease revenue was \$49,000 and the hotel service revenue was \$52,000.

Operating Expenses

Employee-related costs increased \$686,000, or 3%, to \$21,147,000 in 2005 from \$20,461,000 in 2004. This increase is attributed to wage increases of \$664,000 or 4%, and an increase of \$22,000 or 1.5% in employee benefits primarily related to retirement expenses. As a percentage of net patient service revenue, these costs were 52% in 2005 and 53% in 2004.

Supplies and other expenses increased \$409,000, or 2%, from the prior fiscal year. As a percentage of net patient service revenue, these expenses were 42% in 2005 and 43% 2004.

Depreciation and amortization expense increased \$257,000 to \$1,954,000 for 2005 from \$1,697,000 for 2004. The increase in depreciation expense was due to the Medical Center's investment in capital assets during 2005.

Interest expense increased \$149,000 to \$1,303,000 for 2005 from \$1,154,000 for 2004. The increase was mainly related to the write-off of \$388,000 of unamortized reacquisition bond premium. The Medical Center was able to reduce interest rates through the debt refunding in 2005. The new debt issuances in 2005 include interest rates ranging from 3.90% to 5.75%. The debt that was refunded included interest rates of 5.25% and 7.25%.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Management's Discussion and Analysis (continued)

Nonoperating Gains

The following table summarizes nonoperating gains for fiscal years 2005 and 2004.

TABLE 8

	Years Ended September 30	
	2005	2004
	<i>(In Thousands)</i>	
Interest income	\$ 195	\$ 146
Dividends received from joint venture	235	507
Other income (expense)	(17)	48
	<u>\$ 413</u>	<u>\$ 701</u>

2004 Financial Highlights

The following summarizes the Medical Center's financial highlights for the year ended September 30, 2004.

- The Medical Center generated \$3,364,000 in cash from operations during the year ended September 30, 2004.
- Investments in property and equipment totaled \$4,122,000 for the 2004 fiscal year.
- The Medical Center reported an increase in net patient service revenue of \$1,095,000 in 2004. This was a 3% increase compared to 2003. The increase was driven by volume increases in 2004.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Management's Discussion and Analysis (continued)

Balance Sheets

The Medical Center's condensed balance sheets are presented in Table 1.

TABLE 9

	September 30 2004	2003	Dollar Change	Percent Change
	<i>(In Thousands)</i>			
Total current assets	\$ 15,379	\$ 16,634	\$ (1,255)	(8)%
Property and equipment – net	21,467	18,975	2,492	13%
Other assets	3,882	4,241	(359)	(8)%
Total assets	<u>\$ 40,728</u>	<u>\$ 39,850</u>	<u>\$ 878</u>	2%
Current liabilities	\$ 9,877	\$ 8,316	\$ 1,561	19%
Long-term debt and capital lease obligations	16,811	17,851	(1,040)	(6)%
Total liabilities	<u>26,688</u>	<u>26,167</u>	<u>521</u>	2%
Net assets	14,040	13,683	357	3%
Total liabilities and net assets	<u>\$ 40,728</u>	<u>\$ 39,850</u>	<u>\$ 878</u>	2%

Current Assets and Liabilities

During 2004, current liabilities increased while current assets decreased indicating declining liquidity at September 30, 2004, versus September 30, 2003. The Medical Center's current ratio decreased from 2.0 at the end of 2003 to 1.6 at September 30, 2004. This is mainly due to the spending of cash to purchase property and equipment during the year.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Management's Discussion and Analysis (continued)

Capital Assets

The following table presents the components of property and equipment at September 30, 2004 and 2003.

TABLE 10

	September 30	
	2004	2003
	<i>(In Thousands)</i>	
Land and improvements	\$ 1,401	\$ 1,385
Building and improvements	15,537	15,242
Medical office building	8,816	8,347
Fixed equipment	4,383	4,383
Major movable equipment	19,138	18,554
	49,275	47,911
Accumulated depreciation and amortization	(29,577)	(29,199)
Construction in progress	1,769	263
Net property and equipment	<u>\$ 21,467</u>	<u>\$ 18,975</u>

During fiscal year 2004, the Medical Center invested \$4,122,000 in capital assets. The source of the funding for these projects was derived primarily from the remaining proceeds of the bond issuances in 2003. Assets with a cost of \$1,252,000 were disposed of during 2004. These assets were fully depreciated so there was no effect on net assets as a result of these transactions.

Debt

At September 30, 2004, the Medical Center had \$17,506,000 in outstanding debt excluding capital leases. The Medical Center has pledged its revenue and assets as collateral for the Hospital Revenue Bonds issued by Iberia Parish. The Medical Center has agreed to fund the interest and principal payments as they become payable. Accordingly, these Bonds have been recognized as obligations of the Medical Center. The debt amount is presented in the balance sheet net of an unamortized reacquisition premium of \$389,000. Principal payments of \$980,000 were made during this fiscal year. Total debt outstanding represents approximately 43% of the Medical Center's total assets at September 30, 2004.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
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Management's Discussion and Analysis (continued)

The Medical Center made principal payments of \$96,000 on the obligations under capital leases during 2004.

Net Assets

The following table presents the components of the Medical Center's net assets at September 30, 2004 and 2003.

TABLE 11

	September 30	
	2004	2003
	<i>(In Thousands)</i>	
Invested in capital assets, net of related debt	\$ 4,446	\$ 2,948
Restricted	4,156	4,526
Unrestricted	5,438	6,209
	<u>\$ 14,040</u>	<u>\$ 13,683</u>

Net assets increased \$357,000 during 2004, indicating an improvement in financial condition.

Additions to capital assets and principal payments on the capital related debt and loans exceeded the current period's depreciation expense resulting in increased amount of reported net assets invested in capital assets, net of related debt.

Changes in the cash and investment balances held by the trustee under the bond indenture and under the self-insurance trust arrangement resulted in a \$370,000 decrease in the restricted component of net assets.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Management's Discussion and Analysis (continued)

Statements of Revenue and Expenses

The Medical Center's condensed revenues and expenses for fiscal years 2004 and 2003 are presented in Table 12.

TABLE 12

	Years Ended September 30		Dollar	Percent
	2004	2003	Change	Change
	<i>(In Thousands)</i>			
Revenue:				
Net patient service revenue	\$ 38,316	\$ 37,221	\$ 1,095	3%
Other revenue	1,124	826	298	36%
Total operating revenue	39,440	38,047	1,393	4%
Expenses:				
Salaries, wages, and benefits	20,461	19,499	962	5%
Supplies and other expenses	16,471	15,885	586	4%
Depreciation and amortization	1,697	1,517	180	12%
Interest expense	1,154	1,033	121	12%
Total operating expenses	39,783	37,934	1,849	5%
Operating expenses in excess of (less than) operating revenue	(343)	113	(456)	(404)%
Nonoperating gains, net	701	768	(67)	(9)%
Revenue and gains in excess of expenses	\$ 358	\$ 881	\$ (523)	(59)%

During 2004, the Medical Center's total operating revenues increased \$1,393,000, or 4%, to \$39,440,000 while expenses increased \$1,849,000, or 5%, to \$39,783,000. The Medical Center had a loss from operations of \$343,000, which is 0.1% of total operating revenue. This compares to the prior fiscal year's gain from operations of \$113,000, or 0.3% of operating revenue.

Operating Revenue

During fiscal year 2004 and 2003, the Medical Center derived 97% of its total operating revenue from net patient service revenue. Total net patient service revenue increased \$1,095,000, or 3%, in 2004. Overall activity at the Medical Center, as measured by patient discharges, increased 4% to 4,451 discharges in 2004 from 4,288 discharges in 2003. Patient days increased 11% over prior year from 14,990 in 2003 to 16,610 in 2004. The average length of stay for all patients was 3.5 days in 2003 and 3.7 days in 2004.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Management's Discussion and Analysis (continued)

Table 13 presents the relative percentages of gross charges billed for patient services by payer type for fiscal years 2004 and 2003.

TABLE 13

	Years Ended September 30	
	2004	2003
Medicare	45%	43%
Managed care	26	31
Medicaid	17	15
Self-pay and other	12	11
	<u>100%</u>	<u>100%</u>

The following table presents the contractual allowances on gross billings by payer and the provision for doubtful accounts for fiscal years 2004 and 2003.

TABLE 14

	Years Ended September 30	
	2004	2003
	<i>(In Thousands)</i>	
Contractual allowances:		
Medicare	\$ 35,979	\$ 32,824
Managed care and commercial insurers	20,645	20,975
Medicaid	16,652	13,698
Other adjustments	127	161
Total contractual allowances	<u>73,403</u>	<u>67,658</u>
Provision for doubtful accounts	6,118	5,534
	<u>\$ 79,521</u>	<u>\$ 73,192</u>

Allowances increased over prior year due to realized contract rate increases not keeping pace with charge rate increases.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
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Management's Discussion and Analysis (continued)

Other Operating Revenue

For the fiscal year ended September 30, 2004, other operating revenue increased \$298,000, or 36%. Other operating revenue consists of medical office building rentals of \$503,000, cafeteria sales of \$249,000, and other miscellaneous services of \$372,000.

During the 2004 fiscal year, the Medical Center entered into a contractual relationship with an unrelated third party to provide long-term acute care services. Long-term acute care operations began in June 2004. A portion of the agreement includes reimbursement to the Medical Center for the lease of hospital space and reimbursement to the Medical Center for hotel services provided to the long-term acute care center. In 2004, the lease revenue was \$49,000 and hotel service revenue was \$52,000.

Operating Expenses

Employee-related costs increased \$962,000, or 5%, to \$20,461,000 in 2004 from \$19,499,000 in 2003. As a percentage of net patient service revenue, these costs were 53% in 2004 and 52% in 2003. This increase is attributed to an increase of \$627,000 in salaries and wages reflecting patient volume increases of approximately 11%, wage increases and an increase of \$513,000 in employee benefits primarily related to retirement expenses.

Supplies and other expenses increased \$586,000, or 4%, from 2003. As a percentage of net patient service revenue, these expenses were 43% in 2004 and 2003.

Depreciation and amortization expense increased \$180,000 to \$1,697,000 for 2004 from \$1,517,000 for 2003. The increase in depreciation expense was due to the Medical Center's investment in capital assets during 2004.

Interest expense increased \$121,000 to \$1,154,000 for 2004 from \$1,033,000 for 2003. The increase was mainly related to incurring a full year's interest on borrowings made during 2003.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
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Management's Discussion and Analysis (continued)

Nonoperating Gains

The following table summarizes nonoperating gains for fiscal years 2004 and 2003.

TABLE 15

	Years Ended September 30	
	2004	2003
	<i>(In Thousands)</i>	
Interest income	\$ 146	\$ 150
Dividends received from joint venture	507	587
Other income	48	31
	<u>\$ 701</u>	<u>\$ 768</u>

Contacting the Medical Center's Financial Manager

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Medical Center Administration.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Balance Sheets

	September 30	
	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,594,901	\$ 4,951,276
Patient accounts receivable, less allowance for doubtful accounts of \$6,249,000 and \$5,362,000 in 2005 and 2004, respectively	6,496,970	7,216,544
Other receivables	915,583	757,248
Inventories	1,465,156	1,389,480
Prepaid expenses	305,044	194,204
Current portion of designated cash and investments	837,320	869,965
Total current assets	<u>18,614,974</u>	<u>15,378,717</u>
Designated cash and investments, less current portion	3,554,588	3,286,788
Property and equipment, net	21,783,716	21,467,431
Investments in joint ventures	388,702	475,056
Bond issuance costs, net	331,242	120,448
Total assets	<u>\$ 44,673,222</u>	<u>\$ 40,728,440</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 3,579,864	\$ 4,313,965
Employee-related accruals	2,810,829	2,723,813
Due to third-party payers	1,221,003	1,365,434
Accrued interest payable	249,418	330,762
Current installments of debt and capital lease obligations	1,317,000	1,142,657
Total current liabilities	<u>9,178,114</u>	<u>9,876,631</u>
Debt and capital lease obligations, less current portion:		
Iberia Parish bonds payable	20,176,000	16,466,197
Capital lease obligations	—	345,150
	<u>20,176,000</u>	<u>16,811,347</u>
Total liabilities	<u>29,354,114</u>	<u>26,687,978</u>
Net assets:		
Invested in capital assets, net of related debt	3,752,325	4,445,810
Restricted	4,391,908	4,156,752
Unrestricted	7,174,875	5,437,900
Total net assets	<u>15,319,108</u>	<u>14,040,462</u>
Total liabilities and net assets	<u>\$ 44,673,222</u>	<u>\$ 40,728,440</u>

See accompanying notes.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Statements of Revenue, Expenses, and Changes in Net Assets

	Years Ended September 30	
	2005	2004
Net patient service revenue	\$ 40,651,113	\$ 38,315,856
Other revenue	1,498,857	1,124,432
Total operating revenue	42,149,970	39,440,288
Operating expenses:		
Salaries, wages, and benefits	21,146,974	20,460,543
Supplies and other expenses	16,879,568	16,470,828
Depreciation and amortization	1,954,436	1,638,922
Interest expense	1,302,920	1,212,980
Total operating expenses	41,283,898	39,783,273
Operating revenue in excess of (less than) operating expenses	866,072	(342,985)
Nonoperating gains, net:		
Interest income	194,924	145,534
Income from joint ventures	235,402	507,120
Other income (expense)	(17,752)	48,367
Nonoperating gains, net	412,574	701,021
Revenue and gains in excess of expenses	1,278,646	358,036
Net assets at beginning of year	14,040,462	13,682,426
Net assets at end of year	\$ 15,319,108	\$ 14,040,462

See accompanying notes.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Statements of Cash Flows

	Years Ended September 30	
	2005	2004
Operating activities		
Operating revenue collected	\$ 43,071,747	\$ 38,221,563
Cash payments to employees and for employee-related costs	(21,059,958)	(20,081,193)
Cash payments for operating expenses	(18,247,797)	(14,776,495)
Net cash provided by operating activities	3,763,992	3,363,875
Capital and related financing activities		
Purchases of property and equipment	(2,273,036)	(4,121,732)
Proceeds from sales of property and equipment	16,879	—
Repayments of amounts due to Iberia parish	(14,445,000)	—
Proceeds from the issuance of debt by Iberia Parish	18,225,218	—
Principal payments on Iberia Parish debt	(182,218)	(980,000)
Repayments of capital lease obligations	(447,805)	(96,105)
Costs paid related to bond issuance	(282,715)	—
Interest payments on debt and capital lease obligations	(995,463)	(1,114,259)
Net cash used in capital and related financing activities	(384,140)	(6,312,096)
Investing activities		
Investment income	282,720	425,619
Dividends received from joint ventures	235,404	507,120
Other nonoperating income received	68,600	47,916
Net cash provided by investing activities	586,724	980,655
Net (decrease) increase in cash and cash equivalents	3,966,576	(1,967,566)
Cash and cash equivalents, beginning of year	7,342,264	9,309,830
Cash and cash equivalents, end of year	\$ 11,308,840	\$ 7,342,264
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents in current assets	\$ 8,594,901	\$ 4,951,276
Cash and cash equivalents in assets limited as to use:		
Held by trustee under bond indenture	2,392,368	1,986,539
Under self-insurance trust arrangements	321,571	404,449
	\$ 11,308,840	\$ 7,342,264
Reconciliation of income from operations to net cash provided by operating activities		
(Loss) gain from operations	\$ 866,072	\$ (342,985)
Adjustments to reconcile (loss) gain from operations to net cash provided by operating activities:		
Loss on sale of property and equipment	49,355	—
Depreciation	1,890,517	1,628,934
Amortization of bond issuance costs	71,921	9,988
Amortization of debt reacquisition premium	388,801	58,327
Provision for doubtful accounts	6,314,079	6,118,008
Interest expense, net	914,119	1,142,195
Changes in operating assets and liabilities:		
Patient receivables, net	(5,594,505)	(6,649,706)
Other receivables	(158,335)	(29,689)
Inventories	(75,676)	(100,871)
Prepaid expenses	(110,840)	18,288
Accounts payable and accrued expenses	(647,085)	1,806,605
Amounts due to third-party payers	(144,431)	(295,219)
Net cash provided by operating activities	\$ 3,763,992	\$ 3,363,875

See accompanying notes.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements

September 30, 2005

1. Organization and Significant Accounting Policies

Organization

Hospital Service District No. 1 of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (the Medical Center) is a 101-bed acute-care hospital with related outpatient care facilities principally located in New Iberia, Louisiana. The Medical Center operates under the jurisdiction of the Iberia Parish Council of Iberia Parish, State of Louisiana (the Parish) as Hospital Service District No. 1 of Iberia Parish, State of Louisiana, and is a component unit of the Parish as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The Medical Center's component unit relationship to the Parish is principally due to the Medical Center's financial accountability to the Parish as defined in GASB Statement No. 14. The Medical Center is operated by a nine-member Board of Commissioners (the Board), all of whom are appointed by the Parish.

Basis of Accounting

The Medical Center uses the accrual basis of accounting for proprietary funds. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Medical Center has elected to apply the provisions of all relevant Financial Accounting Standards Board (FASB) pronouncements, including those issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Cash Equivalents

Cash equivalents include investments in highly liquid investments with maturities of three months or less when purchased, excluding amounts whose use is limited by board designation or under trust agreements.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Investments

All investments are stated at fair value, based on quoted market prices. Changes in the fair value of investments are included in investment income.

Designated Assets

Designated assets include cash, cash equivalents, and investments. These assets are designated as such in the accompanying balance sheets as they are held by bond trustees under related indenture agreements or held under self-insurance trust arrangements.

Amounts classified as current assets represent cash and cash equivalents to be used to meet certain debt service amounts and other obligations classified as current liabilities at year-end.

Inventories

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of average cost or replacement value.

Property and Equipment

Property and equipment are recorded at cost, or if donated, at fair value at date of receipt. Depreciation is provided over the useful life of each class of depreciable asset using the straight-line method. Equipment held under capital lease obligations is amortized using the straight-line method over the shorter of the lease term or estimated useful life of the equipment. This expense is included in depreciation and amortization expense.

Unamortized Bond Issuance Costs

Bond issuance costs have been deferred and are being amortized using the interest method over the life of the related bonds.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Debt Reacquisition Premium

During 2002, the Medical Center, through an arrangement with the Parish, refunded all outstanding bonds (Series 1979, 1990, and 1996). The reacquisition premium paid is reported in the accompanying 2004 financial statements as a reduction in the carrying amount of the associated debt. During 2005, the Hospital expensed this deferred charge through interest expense as the 2002 bonds were refunded with bonds issued in 2005.

Investments in Joint Ventures

The Medical Center holds a 20% interest in the New Iberia Surgery Center, which provides outpatient surgery services to the community. This investment is carried on the equity method of accounting. The Medical Center holds a 15% interest in Acadiana Diagnostic Imaging LLC, which is a provider of imaging services. This investment is accounted for on the cost basis.

Income earned on investments accounted for on the equity method and dividends received on investments accounted for on the cost basis are included as components of nonoperating gains.

Net Assets

Net assets are classified into three components, defined as follows:

- Invested in capital assets, net of related debt – This component reports capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in this component of net assets. Rather, that portion of debt is included in the same component of net assets as the unspent proceeds. At September 30, 2005 and 2004, \$3,462,000 and \$932,000, respectively, of unspent bond proceeds were included in unrestricted net assets.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

- **Restricted** – This component reports those net assets with externally imposed constraints placed on their use by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – This component reports net assets that do not meet the definition of either of the other two components.

Net Patient Service Revenue

The Medical Center provides medical services to government program beneficiaries and has agreements with other third-party payers that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts billed to patients, third-party payers, and others for services rendered. The provision for doubtful accounts is a component of net patient service revenue. The percentage of total net patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries combined was approximately 54% in 2005 and 53% in 2004.

Retroactive settlements are provided for in some of the governmental payment programs outlined above, based on annual cost reports. Such settlements are estimated and recorded as amounts due to or from third-party payers in the financial statements. The differences between these estimates and final determination of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments resulted in an increase of \$483,000 to net patient service revenue in 2005 and no change in 2004. Estimated settlements through September 30, 2000, for the Medicaid program and 2002 for the Medicare program, have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates required. The effect of any adjustments that may be made to cost reports still subject to review at September 30, 2005 will be reported in the Medical Center's financial position or results of operations as such determinations are made.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Allowances for doubtful accounts are estimated based on historical write-off and collection percentages, and contractual allowances are estimated based on the terms of third-party insured contracts. Doubtful accounts are written off against the allowance after adequate collection effort is exhausted and recorded as recoveries of bad debts if subsequently collected.

Income Taxes

As a political subdivision, the Medical Center qualifies as tax-exempt under existing provisions of the Internal Revenue Code and its income is not generally subject to federal or state income taxes.

Operating and Nonoperating Revenue

The Medical Center's primary purpose is to provide diversified health care services to individuals, physicians, and businesses in Iberia Parish and the surrounding communities. As such, activities related to the ongoing operations of the Medical Center are classified as operating revenues. Operating revenues include those generated from direct patient care, related support services, rental income, gains or losses from disposition of operating properties, and sundry revenues related to the operation of the Medical Center.

Investment income from unrestricted and board-designated investments is reported as other nonoperating revenue. Investment income from trustee investments held under a related bond indenture is reported in nonoperating gains. Additionally, gains and losses not directly related to the ongoing operations of the Medical Center or that occur infrequently, and gifts, grants, and bequests not restricted by donors for specific purposes are reported as nonoperating gains.

Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

2. Charity Care

The Medical Center provides charity care through the provision of emergency and inpatient services to patients who lack sufficient ability to pay for such services. These amounts are not recorded as revenue reported by the Medical Center.

The Medical Center provided four full-time nurses at the Parish Criminal Justice Facility for medical assistance to the individuals in the facility for the first three and a half months of the year. For the remainder, the Medical Center reimbursed the Parish for the nursing care associated with the Parish Criminal Justice Facility. The Medical Center does not maintain records to identify and monitor the level of charity care it provides under this program; however, the total cost of providing this service approximated \$240,000 in 2005 and \$208,000 in 2004.

3. Cash and Investments

In 2005, the Medical Center adopted GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures*, which requires additional disclosures of investment risks related to credit risk, concentration of credit risk, and interest rate risk associated with interest-bearing investments. Such disclosures required by GASB 40 and applicable to the Medical Center are reflected below.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Medical Center's investment policy, which conforms to Louisiana state law, does not specifically limit investment in securities based on an NRSRO credit rating, but the policy does designate authorized investments by type. These authorized investments, within established guidelines, are limited to securities of the U.S. Government or its agencies, U.S. Government obligations, U.S. and Louisiana municipal bonds, interest bearing accounts and certificates of deposits of financial institutions, open-end or closed-end management type investment companies or investment trusts, and an investment trust consisting of pooled or commingled funds of other hospitals.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

3. Cash and Equivalents, and Investments (continued)

Per GASB 40, unless there is information to the contrary, obligations of the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The following table presents each applicable rating grouped by investment type as of September 30, 2005:

By Investment Type	Fair Value	Rating
Cash deposits, operating funds	\$ 11,258,840	Exempt from disclosure Aaa
U.S. Treasury notes	1,677,969	
Total cash and investments	<u>\$ 12,936,809</u>	

By Balance Sheet Category	Fair Value
Cash and cash equivalents	\$ 8,594,901
Designated assets:	
Held under bond indenture	4,070,337
Held by self-insurance trust	321,571
Total cash and investments	<u>\$ 12,986,809</u>

Trusted bond funds are maintained in accordance with the requirements of the indentures related to the Parish of Iberia, State of Louisiana Hospital Revenue Refunding Bonds and Parish of Iberia, State of Louisiana Hospital Revenue Bonds.

A summary of the trusted bond funds at September 30 follows:

	2005	2004
Debt service reserve funds	\$ 2,157,695	\$ 1,869,466
Principal and interest project funds	808,408	811,415
Depreciation reserve fund	1,104,234	1,071,422
	<u>4,070,337</u>	<u>3,752,303</u>
Less amounts classified as current assets	837,320	869,965
	<u>\$ 3,233,017</u>	<u>\$ 2,882,338</u>

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

3. Cash and Equivalents, and Investments (continued)

Concentration of Credit Risk

The Medical Center's investment policy, in accordance with state statute, restricts investments in U.S. Agencies to 50% of total investments. Investments in open-end and closed-end management type investment companies and investment trusts are limited to 20% of total investments. At September 30, 2005, management believes the Medical Center complies with this policy.

Per GASB 40, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at risk investment to be one that represents more than five percent (5%) of the market value of the total investment portfolio and requires disclosure of such at risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At September 30, 2005, the Medical Center had no investments requiring Concentration of Credit Risk disclosure.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Medical Center will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Medical Center will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Iberia Medical Center's formal investment policy is governed by and in conformity with Section 39:2955 of the Louisiana Revised Statutes, which establishes guidelines for depository and investment activity.

- In accordance with statutes of the State of Louisiana, the Medical Center maintains its deposits at financial institutions authorized by the Board of Commissioners.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

3. Cash and Equivalents, and Investments (continued)

- The collateral for public entity deposits in financial institutions is held in the name of the State Treasurer of Louisiana under a program established by the Louisiana State Legislature and is governed by Section 33:2955 of the Louisiana Revised Statutes. Under this program, the Medical Center's funds are protected through a collateral pool administered by the State Treasurer.
- Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits.
- In the event of a financial institution's failure, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Per GASB 40, investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. At September 30, 2005, deposits and investments requiring custodial credit risk disclosure totaled \$11,308,840; all of which were insured or collateralized in accordance with state statute.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the Hospital's segmented time distribution investment maturities in years by investment type as of September 30, 2005.

By Investment Type	Fair Value	Years
		< 1
Cash deposits, operating funds	\$ 11,258,840	\$ 11,258,840
U.S. Treasury notes	1,677,969	1,677,969
Total cash and investments	\$ 12,936,809	\$ 12,936,809

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

4. Investments in Joint Ventures

Investments in joint ventures consisted of the following at September 30:

	<u>2005</u>	<u>2004</u>
New Iberia Surgery Center	\$319,702	\$406,056
Acadiana Diagnostic Imaging LLC	69,000	69,000
	<u>\$388,702</u>	<u>\$475,056</u>

The Medical Center received \$235,000 of income from these joint ventures in 2005 and \$507,000 in 2004. Additionally, the Medical Center provides certain personnel and supplies to the joint ventures for a fee and recognizes payment for these services and supplies as other operating income. These amounts were \$198,000 in 2005 and \$192,000 in 2004.

5. Business and Credit Concentrations

The Medical Center grants credit to patients, substantially all of whom are local area residents. The Medical Center generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross Blue Shield of Louisiana, and commercial insurance policies).

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

5. Business and Credit Concentrations (continued)

The mix of accounts receivable due from patients or third-party payers at September 30 follows:

	<u>2005</u>	<u>2004</u>
Self-pay	29%	34%
Medicare	23	20
Commercial insurers	17	23
Medicaid	16	9
Blue Cross Blue Shield of Louisiana	7	5
Other third-party payers	8	9
	<u>100%</u>	<u>100%</u>

6. Property and Equipment

Property and equipment at September 30, 2005 and 2004 consisted of:

	Beginning Balance	Additions	Retirements	Ending Balance
Land and improvements	\$ 1,400,579	\$ 43,014	\$ —	\$ 1,443,593
Building and improvements	15,537,414	1,168,512	116,723	16,589,203
Medical office building	8,815,604	662,797	—	9,478,401
Fixed equipment	4,382,800	—	—	4,382,800
Major moveable equipment	19,138,126	384,004	2,593,007	16,929,123
Construction in process	1,769,659	1,661,286	1,646,577	1,784,368
	<u>51,044,182</u>	<u>3,919,613</u>	<u>4,356,307</u>	<u>50,607,488</u>
Less accumulated depreciation and amortization	(29,576,751)	(1,890,516)	(2,643,495)	(28,823,772)
	<u>\$ 21,467,431</u>	<u>\$ 2,029,097</u>	<u>\$ 1,712,812</u>	<u>\$ 21,783,716</u>

There was no equipment under capital lease obligations at September 30, 2005. At September 30, 2004, equipment under capital lease obligations totaled \$2,097,000 with related accumulated amortization of approximately \$1,965,000.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

6. Property and Equipment (continued)

Property and equipment at September 30, 2004 and 2003 consisted of:

	Beginning Balance	Additions	Retirements	Ending Balance
Land and improvements	\$ 1,385,099	\$ 15,480	\$ —	\$ 1,400,579
Building and improvements	15,242,108	295,306	—	15,537,414
Medical office building	8,346,921	468,683	—	8,815,604
Fixed equipment	4,382,800	—	—	4,382,800
Major moveable equipment	18,554,152	1,835,656	1,251,682	19,138,126
Construction in process	263,052	3,327,229	1,820,622	1,769,659
	48,174,132	5,942,354	3,072,304	51,044,182
Less accumulated depreciation and amortization	(29,199,499)	(1,628,934)	(1,251,682)	(29,576,751)
	<u>\$ 18,974,633</u>	<u>\$ 4,313,420</u>	<u>\$ 1,820,622</u>	<u>\$ 21,467,431</u>

Equipment under capital lease obligations totaled \$2,097,000 and \$2,082,000 at September 30, 2004 and 2003, respectively. Related accumulated amortization was approximately \$1,965,000 and \$1,848,000 at September 30, 2004 and 2003, respectively.

7. Debt and Capital Lease Obligations

A summary of debt and capital lease obligations, at September 30 follows:

	2005	2004
Parish of Iberia, State of Louisiana Hospital Revenue Refunding Bonds – Series 2001A, payable in semiannual installments beginning in May 2008, through May 2016, including interest at 5.25%	\$ —	\$ 7,905,000
Parish of Iberia, State of Louisiana Hospital Revenue Refunding Bonds – Series 2001B, payable in semiannual installments through May 2008, including interest at 7.25%	—	2,445,000
Parish of Iberia, State of Louisiana Hospital Revenue Refunding Bonds – Series 2002, payable in semiannual installments through May 2007, including interest at 5%	590,000	4,685,000

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

7. Debt and Capital Lease Obligations (continued)

	2005	2004
Parish of Iberia, State of Louisiana Hospital Revenue Bonds – Series 2003, payable in semiannual installments through May 2018, including interest at 4.35%	\$ 2,710,000	\$ 2,860,000
Parish of Iberia, State of Louisiana Hospital Revenue Refunding Bonds – Series 2005A, payable in semiannual installments beginning in May 2008 through May 2016, including interest at 4.15%	7,900,000	–
Parish of Iberia, State of Louisiana Hospital Revenue Refunding Bonds – Series 2005B, payable in semiannual installments through May 2008, including interest at 5.75%	1,887,000	–
Parish of Iberia, State of Louisiana Hospital Revenue Refunding Bonds – Series 2005C, payable in semiannual installments through May 2016, including interest at 3.90%	4,365,000	–
Parish of Iberia, State of Louisiana Taxable Hospital Revenue Bonds – Series 2005D, payable in semiannual installments beginning in May 2006 through May 2016, including interest at 5.75%	1,500,000	–
Parish of Iberia, State of Louisiana Taxable Hospital Revenue Bonds – Series 2005E, payable in semiannual installments beginning in May 2006 through May 2017, including interest at 4.05%	2,200,000	–
Parish of Iberia, State of Louisiana Taxable Excess Revenue Refunding Bonds – Series 2005, payable in semiannual installments beginning in May 2006 through May 2011, including interest at 4.05%	341,000	–
	<u>21,493,000</u>	<u>17,895,000</u>
Capital lease obligations, payable in various monthly installments through September 2008, including interest at rates from 6.5% to 7.9%	–	447,805
	<u>21,493,000</u>	<u>18,342,805</u>
Less current installments	1,317,000	1,142,657
Less unamortized reacquisition premium	–	388,801
Debt, less current installments	<u>\$ 20,176,000</u>	<u>\$ 16,811,347</u>

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

7. Debt and Capital Lease Obligations (continued)

During 2005, the Medical Center, through an arrangement with the Parish, issued \$14,502,000 of Revenue Refunding bonds (Series 2005A, 2005B, 2005C, and 2005) in a current refunding of \$14,445,000 of outstanding bonds (Series 2001A, 2001B, and 2002). Bond issuance costs of \$46,839 related to the refunded bonds will be charged to operations over the life of the bonds.

Additionally, the Medical Center, through an arrangement with the Parish during 2005, issued \$3,700,000 of Hospital Revenue Bonds (Series 2005D and 2005E).

The Medical Center's revenue and assets are pledged as collateral for the Parish's bonds. The bonds are the direct obligation of the Parish. The Medical Center's agreement with the Parish requires the Medical Center to fund all obligations as the amounts come due and the reserve funds associated with the debt. See Note 3. Accordingly, the debt and these assets have been reflected in the accompanying financial statements as obligations and resources of the Medical Center. The bond indentures also place limits on additional borrowings.

Under the terms of the bond indentures, the Medical Center is required to maintain, among other provisions, a certain debt coverage ratio. The Medical Center was in compliance with this provision of the bond indentures at September 30, 2005 and 2004.

Future maturities of debt at September 30, 2005 were as follows:

Year Ending September 30	Long-Term Debt	Interest on Long-Term Debt
2006	\$ 1,317,000	\$ 851,677
2007	1,526,000	860,431
2008	1,604,000	780,869
2009	1,680,000	705,816
2010	1,748,000	632,980
2011 – 2015	7,827,000	1,738,617
2016 – 2018	5,791,000	404,034
	<u>\$21,493,000</u>	<u>\$5,974,424</u>

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

8. Pension Plan

The Medical Center contributes to the Parochial Employees Retirement System of Louisiana (the System), a cost-sharing multiple-employer defined benefit pension plan. The System is comprised of two distinct plans—Plan A and Plan B—with separate assets and benefit provisions. Employees of the Medical Center are members of Plan A. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Louisiana Legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information.

System members are required to contribute 9.5% of their annual covered salary and the Medical Center is required to contribute at an actuarially determined rate. The current rate is 12.75% of annual covered payroll. The Medical Center's pension cost and contributions to the System were approximately \$1,696,000 in 2005 and \$1,506,000 in 2004. These amounts were equal to the required contributions for each year.

9. Contingencies

The Medical Center maintains insurance coverage for medical malpractice claims up to the statutory limit through the Louisiana Hospital Association Trust Fund and the State of Louisiana Patient Compensation Fund. As of September 30, 2005, there was certain litigation pending against the Medical Center and management believes the insurance coverage described previously adequately insures the Medical Center against these claims.

The Medical Center is self-insured for employee health coverage, up to a limit of \$60,000 per individual claim. Excess coverage is maintained with a third-party carrier.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in Medicare and Medicaid programs and reductions in funding could have an adverse impact on the Medical Center.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

10. Operating Leases

The Medical Center leases office space and clinical facilities, generally to members of its medical staff, under operating leases with terms ranging from month-to-month up to five years. The future minimum lease payments expected to be received from these leases follow:

2006	\$ 684,638
2007	593,800
2008	422,653
2009	333,917
2010	163,725
	<u>\$ 2,198,733</u>

The cost of assets held for lease totaled \$11,928,986 at September 30, 2005. Related accumulated depreciation was approximately \$3,062,286 at September 30, 2005.

The Medical Center leases various equipment and facilities under operating leases expiring at various dates through May 2008. The following is a schedule by year of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year.

2006	\$ 760,949
2007	242,739
2008	194,324
2009	77,058
2010	39,780
	<u>\$ 1,314,850</u>

Rental expense for operating leases was approximately \$1,018,415 in 2005 and \$988,000 in 2004.

Hospital Service District No. 1 of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Notes to Basic Financial Statements (continued)

11. Governmental Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers in recent years. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Medical Center is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in
Accordance With *Government Auditing Standards***

The Board of Commissioners
Hospital Service District No. 1 of
Iberia Parish, State of Louisiana

We have audited the financial statements of Hospital Service District No. 1 of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (the Medical Center) as of and for the year ended September 30, 2005, and have issued our report thereon dated February 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of commissioners, management, and the Office of Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and distribution is not limited.

Ernst + Young LLP

February 10, 2006

The Board of Commissioners
Hospital Service District No. 1 of Iberia Parish, State of Louisiana

In planning and performing our audit of the financial statements of Hospital Service District No. 1 of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (the Medical Center), for the year ended September 30, 2005, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards dated February 10, 2006, which noted no material weaknesses in internal control and no instances of noncompliance. However, we would like to provide you with an update on the prior-year observations provided to you in our letter dated January 21, 2005.

The following are the comments included in our letter to you dated January 21, 2005.

General IT Controls – Document Retention

During our audit work, we obtained an understanding of the procedures and controls surrounding the program change and logical access processes. We noted that information system personnel are not required to maintain key documentation supporting changes made to significant applications, nor are they required to retain documentation supporting modifications to access rights. No documentation regarding any program changes occurring in the current fiscal year was retained with the exception of the situation log.

We suggest that management implement a formal process to retain all key information system documentation relating to program changes and logical access changes to provide an auditable trail of the changes made to significant applications.

General IT Controls – Logical Access

During our audit work, we obtained an understanding of the logical access process. We noted that management requires users to change passwords every six months and that the complexity feature is not currently activated.

We suggest that management consider reducing the maximum duration of passwords. Also we suggest that management activate the complexity feature on the password controls. Doing so may assist in maintaining the integrity of passwords as well as decreasing the opportunity to commit fraudulent activity.

Fixed Asset Impairment

During our audit procedures for property and equipment, we noted that management does not have a formal process in place to monitor fixed assets for impairment.

We suggest that management consider implementing a formal process for evaluating the fixed assets for impairment on a regular basis to ensure the carrying value of the assets is appropriate.

Payroll Process

During our test of controls procedures, we noted that if the responsible department managers do not approve their respective departments' time electronically in Kronos, the Payroll Coordinator will sign off in order to process the payroll.

We suggest that the department managers be required to sign off on their departments' time electronically before the payroll is processed. If the managers are unable to sign off on their departments' time, and the Payroll Coordinator signs off, the Payroll Coordinator should notify the department managers of this occurrence. The department managers should review the time and notify the Payroll Coordinator of any discrepancies.

We also noted that the total hours in the Kronos Time Detail report are not reconciled to the total of the CPSI Payroll Register. We recommend that the Medical Center reconcile these two reports before processing payroll to ensure the hours being processed are complete and accurate.

Cash Receipts Process

During our test of controls procedures, we noted that business office clerks have access to write off patient accounts.

We recommend that a system control be implemented to segregate these duties. If the ability to write off accounts cannot be restricted, we recommend that the department manager review write-off logs on a monthly basis to ensure the accounts are being properly written off.

Cash

During our detail testing of the cash accounts, we noted through inquiry that the bank reconciliations are being reviewed on a monthly basis. We noted that no evidence of this review is documented on the reconciliations.

We recommend that both the preparer and reviewer manually sign and date the reconciliations to evidence their preparation and review.

Land Improvements

During our detail testing of the property and equipment accounts, we noted that the Medical Center is amortizing the land improvements recorded on the Medical Center's books. Upon adoption of Governmental Accounting Standards Board Statement No. 34, land improvements should not be amortized.

While the amount amortized during the current fiscal year was not a significant amount, we recommend that management not book amortization of the land improvement accounts in the future.

Management Update In Connection With 2005 Audit

General IT Controls – Documentation Retention

We have implemented a formal documentation of all program changes. Along with the situation log, all documentation provided with software updates is logged and kept in a separate file.

General IT Controls – Logical Access

New password controls have been implemented as of April 14, 2005. Passwords now expire every 90 days. All passwords must be complex, consisting of at least 7 characters, which must include alpha and numeric values as well as at least one special character, capital letter or other punctuation.

Fixed Asset Impairment

As recommended during the 2004 audit recommendations, Iberia Medical Center has implemented a formal review process monitoring fixed assets for impairment, which is performed on a quarterly basis.

Payroll Process

Iberia Medical Center Payroll Department has implemented a procedure to ensure payroll hours are approved by the respective manager. In the event that a manager does not sign off on their department's payroll hours in Kronos, an e-mail is sent to the manager with a memo stating that payroll hours were not signed off and a review of time is necessary with an e-mail reply stating that the time was signed off.

The Kronos Time Detail report is also reconciled with the CPSI Payroll Register, verifying that hours are complete and accurate.

Cash Receipts Process

Business Office has implemented a process whereby the department manager now reviews and signs off on all requested write-offs, prior to the accounts actually being written off.

Cash

Bank reconciliations are being signed and dated by the Staff Accountant (preparer) and the Controller to indicate that the reconciliation has been reviewed.

Land Improvements

To remain in compliance with Governmental Accounting Standards Board Statement No. 34, land improvement accounts are no longer amortized.

* * * * *

This letter is intended solely for the information and use of the finance committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and distribution is not limited.

We would be pleased to discuss the above matters or to respond to any questions at your convenience.

Ernst + Young LLP

February 10, 2006